

Minnesota Workers' Compensation Assigned Risk Plan

Financial Statements
Together with
Independent Auditors' Report

December 31, 2023

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

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INDEPENDENT AUDITORS' REPORT

Plan Administrator and the Commerce Department
of the State of Minnesota
Minnesota Workers' Compensation Assigned Risk Plan
St. Paul, Minnesota

Opinion

We have audited the accompanying financial statements of Minnesota Workers' Compensation Assigned Risk Plan (the Plan), which comprise the balance sheet as of December 31, 2023 and 2022, and the related statements of income and comprehensive income (loss), change in policyholders' surplus, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Plan and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Roseville, Minnesota
August 9, 2024

Olsen Thielen + Co., Ltd.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

BALANCE SHEET DECEMBER 31, 2023 AND 2022

ASSETS		
	2023	2022
INVESTMENTS:		
Fixed Maturities - at Fair Value	\$ 209,329,440	\$ 201,899,665
Equity Securities - at Fair Value	55,690,315	49,097,497
Short-Term Investments	7,748,678	5,952,593
Total Investments	272,768,433	256,949,755
Cash	3,333,578	4,180,334
Accrued Interest and Dividends	1,624,053	930,523
Premiums Receivable, Net	15,998,198	13,466,584
Reinsurance Recoverable on Unpaid Losses	297,034,000	340,533,000
Reinsurance Recoverable on Paid Losses	16,547,562	14,641,029
Deferred Service Carrier Fees	1,973,087	2,015,474
Deferred Policy Acquisition Costs	892,638	862,760
Due From Broker for Security Sales	74,200	73,976
Other Assets	1,162	104,982
 TOTAL ASSETS	 \$ 610,246,911	 \$ 633,758,417
LIABILITIES AND POLICYHOLDERS' SURPLUS		
LIABILITIES:		
Reserve for Losses	\$ 480,003,000	\$ 528,070,000
Reserve for Loss Adjustment Expenses	47,003,000	45,765,000
Unearned Premiums	13,988,920	14,248,602
Special Compensation Fund Assessment Payable	2,728,175	2,575,813
Servicing Carrier Administration Fee Payable	4,055,713	3,735,057
Other Liabilities	582,393	516,011
Total Liabilities	548,361,201	594,910,483
POLICYHOLDERS' SURPLUS:		
Restricted - Terrorism Coverage	5,009,619	4,908,027
Appropriated for State of Minnesota	11,885,710	-
Unassigned	52,153,271	50,881,869
Accumulated Other Comprehensive Loss	(7,162,890)	(16,941,962)
Total Policyholders' Surplus	61,885,710	38,847,934
 TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	 \$ 610,246,911	 \$ 633,758,417

The accompanying notes are an integral part of the financial statements.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

STATEMENT OF INCOME AND COMPREHENSIVE INCOME (LOSS) YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
REVENUES:		
Net Earned Premiums	\$ 37,168,968	\$ 36,064,444
Net Investment Income	6,654,665	3,831,321
Unrealized Gains (Losses) on Equity Security Investments	9,254,589	(13,981,381)
Net Realized Capital Gains (Losses)	(3,896,955)	2,101,498
WCRA Surplus Distribution	-	19,959,115
Total Revenues	49,181,267	47,974,997
LOSSES AND EXPENSES INCURRED:		
Losses and Loss Adjustment Expenses	24,013,087	30,044,016
Servicing Carrier Fees	5,029,931	4,945,577
Special Compensation Fund Assessments	534,806	504,681
Other Underwriting Expenses	6,344,739	5,974,420
Total Losses and Expenses Incurred	35,922,563	41,468,694
NET INCOME	13,258,704	6,506,303
OTHER COMPREHENSIVE GAIN (LOSS):		
Unrealized Gains (Losses) on Fixed Maturity Investments	9,779,072	(17,658,369)
Other Comprehensive Gain (Loss)	9,779,072	(17,658,369)
COMPREHENSIVE INCOME (LOSS)	\$ 23,037,776	\$ (11,152,066)

The accompanying notes are an integral part of the financial statements.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

STATEMENT OF CHANGES IN POLICYHOLDERS' SURPLUS YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
RESTRICTED - TERRORISM COVERAGE:		
Beginning of Year	\$ 4,908,027	\$ 4,833,617
Transfer From Unassigned Surplus	<u>101,592</u>	<u>74,410</u>
End of Year	<u>5,009,619</u>	<u>4,908,027</u>
APPROPRIATED FOR STATE OF MINNESOTA:		
Beginning of Year	-	16,738,866
Transfer From Unassigned Surplus	<u>11,885,710</u>	-
Distributions to the State of Minnesota	-	<u>(16,738,866)</u>
End of Year	<u>11,885,710</u>	<u>-</u>
UNASSIGNED:		
Beginning of Year	<u>50,881,869</u>	44,449,976
Net Income	<u>13,258,704</u>	6,506,303
Transfer to Restricted - Terrorism Coverage	<u>(101,592)</u>	<u>(74,410)</u>
Transfer to Appropriated for State of Minnesota	<u>(11,885,710)</u>	-
End of Year	<u>52,153,271</u>	<u>50,881,869</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):		
Beginning of Year	<u>(16,941,962)</u>	716,407
Unrealized Gains (Losses) on Fixed Maturity Investments	<u>9,779,072</u>	<u>(17,658,369)</u>
End of Year	<u>(7,162,890)</u>	<u>(16,941,962)</u>
TOTAL POLICYHOLDERS' SURPLUS	<u>\$ 61,885,710</u>	<u>\$ 38,847,934</u>

The accompanying notes are an integral part of the financial statements.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

STATEMENT OF CASH FLOWS YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums Collected, Net of Reinsurance	\$ 34,377,672	\$ 33,914,226
Investment Income Received	5,439,998	3,439,646
Loss and Loss Adjustment Expenses Paid, Net of Recoveries	(29,249,620)	(24,916,916)
Special Compensation Fund Assessments Paid	(382,444)	(549,549)
Underwriting and Other Expenses Paid	(10,871,303)	(10,923,639)
WCRA Surplus Distribution	-	19,959,115
Net Cash Flows From Operating Activities	(685,697)	20,922,883
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Fixed Maturities	(119,680,687)	(55,843,430)
Purchases of Equity Securities	(888,402)	(11,432,535)
Proceeds From Sales of Fixed Maturities	115,917,683	49,807,309
Proceeds From Sales of Equity Securities	5,900,000	9,738,866
Due to/Due From Broker for Security Purchases and Sales	(224)	(36,487)
Paydowns of Fixed Maturities	386,656	5,111,904
Net Change in Short-Term Investments	(1,796,085)	1,175,981
Distributions to the State of Minnesota	-	(16,738,866)
Net Cash Flows From Investing Activities	(161,059)	(18,217,258)
NET CHANGE IN CASH	(846,756)	2,705,625
CASH at Beginning of Year	4,180,334	1,474,709
CASH at End of Year	\$ 3,333,578	\$ 4,180,334

The accompanying notes are an integral part of the financial statements.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF PLAN

The Minnesota Workers' Compensation Assigned Risk Plan (the Plan) is the source of workers' compensation and employers' liability coverage for Minnesota employers who have been unable to obtain an insurance policy through the voluntary market. Coverage provided through the Plan is substantially the same as coverage available from licensed workers' compensation insurance companies.

The Plan was established in 1982 and contracts with servicing contractors who review applications, issue policies, collect premiums, pay claims, and perform other administrative duties for the Plan per contractual requirements. To the extent that the assets of the Plan are inadequate to meet its obligations, the Commissioner of the Minnesota Department of Commerce shall assess all licensed workers' compensation insurance companies doing business in the state of Minnesota an amount sufficient to fully fund the obligations of the Plan. The assessment of each insurer shall be in a proportion equal to the proportion that the amount of workers' compensation insurance written by that insurer in Minnesota during the calendar year preceding the assessment bears to the total workers' compensation insurance written in Minnesota during the same calendar year by all licensed insurers. No assessments were made in either 2023 or 2022. The servicing contractors bear no share of the Plan's liabilities.

Since inception, the Plan has contracted with eight servicing contractors to administer the program. These contractors are as follows:

- Berkley Risk Administrators Company, LLC (BRAC);
- RTW, Inc. (RTW);
- SFM Risk Solutions, Inc. (SFM);
- Old Republic Residual Market Services (OR);
- Employers Insurance of Wausau, a Mutual Company (EIW);
- Occupational Healthcare Management Services (OHMS);
- Deferred Compensation Administrators, Inc. (DCA); and
- St. Paul Risk Services, Inc. (SPRS)

Policies are allocated to servicing carriers according to each carrier's contractual percentage participation in the program. The percentage participations have varied over time, as outlined in the following chart:

Policy Inception Period	Percentage Participation							
	BRAC	RTW	SFM	OR	EIW	OHMS	DCA	SPRS
Inception - 6/30/83	7.0%	—%	—%	—%	30.0%	—%	3.0%	60.0%
7/1/83 - 12/31/86	18.0	—	—	—	67.0	—	15.0	—
1/1/87 - 3/31/89	50.0	—	—	—	33.0	—	17.0	—
4/1/89 - 3/31/92	65.0	—	—	—	35.0	—	—	—
4/1/92 - 3/31/94	50.0	—	—	—	50.0	—	—	—
4/1/94 - 3/31/97	50.0	—	—	—	25.0	25.0	—	—
4/1/97 - 6/30/00	50.0	—	—	—	50.0	—	—	—
7/1/00 - 6/30/04	100.0	—	—	—	—	—	—	—
7/1/04 - 12/31/09	75.0	25.0	—	—	—	—	—	—
1/1/10 - 12/31/16	33.3	33.3	33.3	—	—	—	—	—
1/1/17 - 6/30/18	—	40.0	60.0	—	—	—	—	—
7/1/18 - 12/31/19	—	—	100.0	—	—	—	—	—
1/1/20 - 12/31/23	—	—	75.0	25.0	—	—	—	—

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Plan's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Risks and Uncertainties

Certain risks and uncertainties are inherent in the Plan's day-to-day operations and in the process of preparing its financial statements. The more significant of those risks and uncertainties, as well as the Plan's methods for mitigating, quantifying, and minimizing such risks, are presented below and throughout the notes to the financial statements.

Financial Statements Risk

The preparation of financial statements requires the Plan administrator to make estimates and assumptions that affect the reported financial statement balances, as well as the disclosure of contingent assets and liabilities. The most significant of these amounts is the liability for loss and loss adjustment expense (LAE) reserves. While the Plan administrator believes the reserve for losses and LAE makes a reasonable provision to cover the ultimate liability, it is reasonably possible that the actual ultimate loss and LAE costs may vary from amounts provided, and the variance could be material to the financial statements.

Investments Risk

The Plan is exposed to risks that issuers of securities owned by the Plan will default or that interest rates will change and cause a decrease in the value of its investments. The Plan mitigates these risks by investing in high-grade securities and by matching the maturities of its investments with the anticipated payouts of its liabilities.

Premiums Receivable Risk

Premiums receivable represent amounts to be received for policies issued. Premiums are calculated based upon information provided by the insured. Audits are performed on the information provided after the policy expiration date. These audits may result in an additional premium billing or a premium refund. Any difference between the initial premium and the audit premium is reflected in current operations when the audit premium is billed, or premium refund is recorded.

The Plan provides for probable uncollectible accounts through an allowance for expected credit losses on premiums receivable based on prior experience, aging analysis and assessment of the current status of individual accounts and current and expectations of future conditions. The Plan assesses collectability by pooling receivables where similar characteristics exist and evaluate receivables individually when specific receivable balances no longer share those risk characteristics and are considered at risk or uncollectible. Premiums receivable balances are charged off against the allowance for credit losses after recovery efforts have ceased. The expense associated with the allowance for expected credit losses is recognized in other underwriting expenses.

The Plan had the following activity for its allowance for credit losses for premiums receivable for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Beginning Balance	\$ 8,159,426	\$ 7,211,705
Provision for Losses	3,256,414	4,183,363
Write-Offs	(3,171,109)	(3,235,642)
Collections of Previous Write-Offs	<u>—</u>	<u>—</u>
Ending Balance	<u>\$ 8,244,731</u>	<u>\$ 8,159,426</u>

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The Plan follows current generally accepted accounting standards relating to accounting for investment securities. These standards require equity investments (except those accounted for under the equity method of accounting, or those that result in the consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. Investments in debt securities are classified as held-to-maturity if the Plan has the positive intent and ability to hold the securities to maturity and reports them in the financial statements at amortized cost. All other debt securities are classified as available-for-sale and reported at fair value with unrealized gains and losses reported in other comprehensive income. All equity securities held by the Plan that have readily determinable fair values are reported at fair value. The accounting standards allow companies to make an election for those investments in equity securities where there is not a readily determinable fair value (measurement alternative election). Under this election, equity securities without readily determinable fair values are reported at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the same or similar instruments of the same issuer.

Realized gains and losses on the sale of investments are determined using the average cost method. Both realized and unrealized gains and losses on equity securities are reported in net income. For debt securities declines in fair value that are other than temporary are included in net income.

For all investment securities, fair value is determined by reference to quoted prices in active markets.

The status and fair value changes of fixed income investments are reviewed to assess whether a decline in fair value of an investment below its cost basis is the result of a credit loss. Credit losses are recorded through an allowance with the corresponding charge to realized investment gains (losses). If the Company intends to sell or is more likely than not required to sell a security, the asset is written down to fair value directly through realized investment gains (losses).

Interest income includes amortization of purchase premium or discounts for those debt securities which are held to maturity. Premiums and discounts on these debt securities are amortized on the level yield method without anticipating prepayments.

Deferred Costs and Fees

Policy acquisition costs, such as commissions and premium taxes which vary with and are primarily related to the production of business, are deferred and amortized over the effective period of the related insurance policies. If deferred policy acquisition costs were to exceed the sum of unearned premiums and related anticipated investment income less related losses and loss adjustment expenses, the excess costs would be expensed immediately.

Service carrier fees, which are primarily related to the production and maintenance of business, are deferred and amortized over the effective period of the related insurance policies.

Unearned Premiums

Premiums are earned ratably over the terms of the policies. Unearned premiums are calculated on the daily pro-rata method and represent the unexpired portion of premiums written.

Losses and LAE

The reserves for losses and LAE represent an estimate of the ultimate net cost of all claims that have occurred and are unpaid. The reserves are based on loss factors determined by independent consulting actuaries, using statistical analyses and projections and the historical loss experience of the Plan, and give effect to estimates of trends in claim severity and frequency. As claim settlements occur that differ from reserves estimates, these differences are included in current operations.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Losses and LAE (Continued)

For policies with inception dates prior to April 1, 1992, the servicing contractors were responsible for all allocated and unallocated LAE incurred in the settlement of losses. Allocated loss adjustment expenses (ALAE) include legal fees and related expenses (expert testimony, investigations, etc.), medical examinations, and other costs paid to third parties associated with the defense and settlement of particular claims. Unallocated loss adjustment expenses (ULAE) include that portion of the cost of settling claims that cannot be attributed to a specific claim and are more in the nature of an overhead expense (servicing contractors' claim adjuster salaries, rent, etc.).

For policies with inception dates after April 1, 1992, the Plan is responsible for legal and related expenses incurred in the settlement of losses and, accordingly, a liability for these amounts has been established. All other ALAE and all ULAE continue to be the responsibility of the servicing contractors.

Special Compensation Fund Assessments

The Minnesota Department of Labor and Industry currently assesses all insurers writing workers' compensation insurance in Minnesota. The assessment pays for the operation of the Special Compensation Fund (SCF). The SCF pays the cost of administration by the State of Minnesota of the workers' compensation laws; reimburses supplementary benefits paid to claimants; reimburses certain benefits paid to claimants with qualifying, prior registered conditions; and pays claims of injured employees of uninsured employers.

In March 2002, legislation was passed by the Minnesota state legislature and signed into law to change the method of assessing insured employers from a loss-based assessment to a premium-based assessment. This change was effective beginning in 2003, from which point the obligating event for assessment liability became the writing of, or becoming obligated to write or renew, the premiums on which the future assessments are to be based. According to MN Senate File 3136, the premium-based method of assessment is to be collected through a policyholder surcharge.

The special compensation fund assessment payable represents those assessments currently due based on pure premiums and the estimated liabilities for future SCF assessments based on SCF surcharges collected on policies with an effective date on or after January 1, 2003.

Restricted Surplus - Terrorism Coverage

As a result of the "Terrorism Risk Insurance Act" passed by Congress and signed into law by the President in November 2002, the Plan is required to restrict a portion of its surplus for terrorism. Through December 31, 2020, the Plan restricted \$1 for every \$5,000 of payroll covered by the Plan's policies. The "Terrorism Risk Insurance Program Reauthorization Act of 2019" extended this program through 2027 and may require additional amounts to be restricted in future years.

Income Taxes

The Plan is exempt from paying income taxes under Section 501 of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Plan reviews income tax positions taken or expected to be taken to determine if there are any income tax uncertainties. This includes positions that the Plan is exempt from income taxes and as such has not filed Federal or Minnesota Income Tax Returns. The Plan recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on the technical merits of the positions. The Plan has identified no income tax uncertainties.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit Risk

Financial instruments which potentially subject the Plan to concentrations of credit risk consist principally of cash. The Plan places its cash with high credit quality financial institutions and, by policy, generally limits the amount of credit exposure to any one financial institution. The Plan had a credit risk concentration at December 31, 2023 as a result of depositing \$3,954,000 of funds in excess of Federal Deposit Insurance (FDIC) coverage.

Change in Accounting Principle (Credit Losses)

Effective January 1, 2023, the Plan adopted FASB ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements*, as amended, which modifies the measurement of expected credit losses on certain financial instruments. The Plan adopted this new guidance utilizing the modified retrospective transition method. The adoption of this Standard did not have a material impact on the Plan's financial statements but did change how the allowance for credit losses is determined.

Subsequent Events

In preparing these financial statements, the Plan has evaluated for recognition or disclosure the events or transactions that occurred through August 9, 2024, the date the financial statements were available to be issued.

NOTE 3 - CASH PROVIDED BY OPERATING ACTIVITIES

A reconciliation of cash provided by operating activities to the amount reflected in the statement of cash flows is as follows:

	<u>2023</u>	<u>2022</u>
Net Cash Flow From Operating Activities:		
Net Income	\$ 13,258,704	\$ 6,506,303
Adjustments to Reconcile Net Income to		
Net Cash Flows From Operating Activities:		
Unrealized (Gains) Losses on Equity Security Investments	(9,254,589)	13,981,381
Net Realized Capital (Gains) Losses	3,896,955	(2,101,498)
Amortization and Accretion	(521,137)	(3,464)
Changes in Operating Assets and Liabilities:		
Reserve for Losses and Loss Adjustment Expenses	(46,829,000)	(8,869,000)
Reinsurance Recoverable on Paid Losses	(1,906,533)	(2,384,900)
Reinsurance Recoverable on Unpaid Losses	43,499,000	16,381,000
Unearned Premiums	(259,682)	(251,182)
Premiums Receivable, Net	(2,531,614)	(1,899,036)
Deferred Service Carrier Fees	42,387	20,712
Deferred Policy Acquisition Costs	(29,878)	(302,404)
Special Compensation Fund Assessment Payable	152,362	(44,868)
Servicing Carrier Administration Fee Payable	320,656	45,881
Other Liabilities	66,382	41,893
Accrued Interest and Dividends	(693,530)	(388,211)
Other Assets	103,820	190,276
Net Cash Flows From Operating Activities	<u>\$ (685,697)</u>	<u>\$ 20,922,883</u>

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - REINSURANCE

The Plan is reinsured by the Minnesota Workers' Compensation Reinsurance Association (WCRA). There is not, nor has there ever been, any other applicable reinsurance. The following table lists the selected per-occurrence retentions by accident year for the past twenty years:

<u>Accident Year</u>	<u>Loss only Per-Occurrence Retention</u>
2004	\$ 360,000
2005	380,000
2006	780,000
2007	800,000
2008	820,000
2009	1,720,000
2010	1,800,000
2011	1,800,000
2012	1,840,000
2013	1,880,000
2014	1,920,000
2015	1,960,000
2016	2,000,000
2017	2,000,000
2018	5,000,000
2019	5,000,000
2020	5,000,000
2021	5,000,000
2022	5,000,000
2023	5,000,000

A contingent liability exists with respect to reinsurance ceded to the extent that the reinsurer is unable to meet its obligations assumed under the reinsurance agreement.

The Plan is not aware of any material problems with the collectability of its reinsurance recoverable balances on paid or estimated unpaid losses from WCRA and therefore has not recorded an allowance for credit losses on reinsurance recoverables.

The effect of ceded reinsurance on premiums written, premiums earned, and losses and LAE is reflected in the following table:

	<u>2023</u>	<u>2022</u>
Premium Written:		
Direct	\$ 37,053,038	\$ 36,202,146
Ceded	(183,781)	(117,630)
Net Premiums Written	<u>\$ 36,869,257</u>	<u>\$ 36,084,516</u>
Premiums Earned:		
Direct	\$ 37,352,749	\$ 36,182,074
Ceded	(183,781)	(117,630)
Net Premiums Earned	<u>\$ 37,168,968</u>	<u>\$ 36,064,444</u>
Losses and Loss Adjustment Expenses Incurred:		
Direct	\$ 32,777,300	\$ 38,912,851
Ceded	(8,764,213)	(8,868,835)
Net Losses and Loss Adjustment Expenses Incurred	<u>\$ 24,013,087</u>	<u>\$ 30,044,016</u>

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - INVESTMENTS

Invested Amounts, Investment Income and Gains and Losses

The amortized cost, gross unrealized appreciation and depreciation, and the estimated fair values of investments in fixed maturities are as follows:

	2023			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
U.S. Treasury Securities and Other Obligations	\$ 192,621,206	\$ 1,189,946	\$ (7,627,379)	\$ 186,183,773
Mortgage-Backed Securities	<u>23,871,124</u>	<u>152,709</u>	<u>(878,166)</u>	<u>23,145,667</u>
Total Fixed Maturities	<u>\$ 216,492,330</u>	<u>\$ 1,342,655</u>	<u>\$ (8,505,545)</u>	<u>\$ 209,329,440</u>
	2022			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
U.S. Treasury Securities and Other Obligations	\$ 145,696,060	\$ 13,164	\$ (12,593,888)	\$ 133,115,336
Mortgage-Backed Securities	<u>73,145,567</u>	<u>22,791</u>	<u>(4,384,029)</u>	<u>68,784,329</u>
Total Fixed Maturities	<u>\$ 218,841,627</u>	<u>\$ 35,955</u>	<u>\$ (16,977,917)</u>	<u>\$ 201,899,665</u>

The amortized cost and estimated fair value of investments in fixed maturities at December 31, 2023 by contractual maturity are shown below. Expected maturities will likely differ from contractual maturities, as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in One Year or Less	\$ —	\$ —
Due After One Year Through Five Years	136,260,657	132,378,112
Due After Five Years Through Ten Years	56,360,549	53,805,661
Mortgage-Backed Securities	<u>23,871,124</u>	<u>23,145,667</u>
	<u>\$ 216,492,330</u>	<u>\$ 209,329,440</u>

The cost and fair values of equity securities available-for-sale at 2023 and 2022 were as follows:

	2023			
Description	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity Securities	<u>\$ 31,876,872</u>	<u>\$ 23,813,443</u>	<u>\$ —</u>	<u>\$ 55,690,315</u>
	2022			
Description	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity Securities	<u>\$ 34,538,643</u>	<u>\$ 14,558,854</u>	<u>\$ —</u>	<u>\$ 49,097,497</u>

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - INVESTMENTS (Continued)

Invested Amounts, Investment Income and Gains and Losses (Continued)

At December 31, 2023 and 2022, gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

Description	2023					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities:						
U.S. Treasury Securities and Other Obligations	\$ 14,249,492	\$ (524,117)	\$ 93,196,491	\$ (7,103,262)	\$ 107,445,983	\$ (7,627,379)
Mortgage-Backed Securities	4,695,692	(46,862)	13,195,544	(831,304)	17,891,236	(878,166)
Total	<u>\$ 18,945,184</u>	<u>\$ (570,979)</u>	<u>\$ 106,392,035</u>	<u>\$ (7,934,566)</u>	<u>\$ 125,337,219</u>	<u>\$ (8,505,545)</u>
Description	2022					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities:						
U.S. Treasury Securities and Other Obligations	\$ 78,079,543	\$ (5,292,292)	\$ 47,036,723	\$ (7,301,596)	\$ 125,116,266	\$ (12,593,888)
Mortgage-Backed Securities	22,052,341	(1,432,527)	41,216,756	(2,951,502)	63,269,097	(4,384,029)
Total	<u>\$ 100,131,884</u>	<u>\$ (6,724,819)</u>	<u>\$ 88,253,479</u>	<u>\$ (10,253,098)</u>	<u>\$ 188,385,363</u>	<u>\$ (16,977,917)</u>

In the above tables the unrealized losses on fixed income securities are deemed to reflect changes in the interest rate environment. As part of its assessment of credit losses, the Plan considers whether it intends to sell or is more likely than not required to sell securities, principally in consideration of its asset and liability maturity matching objectives. The Plan has concluded that no investments have impairment that is other-than-temporary at December 31, 2023. The Plan believes that its unrealized losses in equity securities are caused by market conditions influenced by the existing economic factors, as opposed to deterioration in the fundamentals of individual investments and intends to maintain its investments through this downturn.

The Plan holds investments in a variety of investment funds. In general, its investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and such changes could be material to the amounts reported in the balance sheet.

Net investment income for 2023 and 2022 is summarized as follows (fixed maturities include interest on short-term investments):

	2023	2022
Fixed Maturities	\$ 5,958,939	\$ 3,212,069
Equity Securities	893,407	834,162
Total	6,852,346	4,046,231
Investment Expenses	(197,681)	(214,910)
Net Investment Income	<u>\$ 6,654,665</u>	<u>\$ 3,831,321</u>

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - INVESTMENTS (Continued)

Cash proceeds received from sales and paydowns of investments in fixed maturities during 2023 and 2022 were \$116,304,339 and \$54,919,213, respectively. In 2023 and 2022, gross gains of \$818,861 and \$216,294 and gross losses of \$(7,065,643) and \$(2,008,072), respectively, were realized on those sales.

Gross gains of \$2,349,827 and \$3,893,276 and were realized on sales of equity securities in 2023 and 2022, respectively.

Fair Value of Financial Instruments

The FASB *Accounting Standards Codification* establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value, as follows: Level 1, defined as observable inputs (i.e. quoted prices in active markets); Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and, Level 3, defined as unobservable inputs for which little or no market data exists, which then requires an entity to develop its own assumptions.

The Plan utilizes a pricing service to estimate its fair value measurements for its fixed maturities and equity securities. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, most fair value estimates for fixed maturities are based on observable market information rather than quoted prices. Accordingly, the estimates of fair value for fixed maturities, other than U.S. Treasury securities, are included in Level 2 of the Standard's hierarchy. U.S. Treasury securities are included in Level 1.

The fair value of the Plan's mortgage-backed securities and other debt obligations were determined based on Level 2 inputs and are estimated as the present value of expected future cash inflows, taking into account (1) the type of security, its term, and any underlying collateral, (2) the seniority level of the debt security, and (3) quotes received from brokers and pricing services. In applying the valuation model, significant inputs including probability of default for debt securities, the estimated prepayment rate, and the projected yield based on estimated future market rates for similar securities.

All equity securities owned by the Plan have active markets and are included in Level 1 of the Standard's hierarchy.

Certain equity securities are valued at the net asset value per unit based on either the observable net asset value of the underlying investment or the net asset value of the underlying pool of securities. Net asset value is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding.

Investments measured at net asset value include alternative investment fund of funds and private equity fund of funds. The Plan uses the net asset value of these investment entities to determine the fair value of these investments which do not have a readily determinable fair value and either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - INVESTMENTS (Continued)

Fair Value of Financial Instruments (Continued)

The Plan's fixed maturities and equity investments fair value measurements at December 31, 2023 and 2022 are as follows:

	Total	Quoted Prices for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
2023:				
Fixed Maturities:				
U.S. Treasury Securities and Other Obligations	\$ 186,183,773	\$ 186,183,773	\$ -	\$ -
Mortgage-Backed Securities	<u>23,145,667</u>	<u>-</u>	<u>23,145,667</u>	<u>-</u>
Total Fixed Maturities	<u>209,329,440</u>	<u>\$ 186,183,773</u>	<u>\$ 23,145,667</u>	<u>\$ -</u>
Investments Measured at Net Asset Value	<u>55,690,315</u>			
Totals	<u>\$ 265,019,755</u>			
		Quoted	Other	Unobservable
	Total	Prices for Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)
2022:				
Fixed Maturities:				
U.S. Treasury Securities and Other Obligations	\$ 133,115,336	\$ 133,115,336	\$ -	\$ -
Mortgage-Backed Securities	<u>68,784,329</u>	<u>-</u>	<u>68,784,329</u>	<u>-</u>
Total Fixed Maturities	<u>201,899,665</u>	<u>\$ 133,115,336</u>	<u>\$ 68,784,329</u>	<u>\$ -</u>
Investments Measured at Net Asset Value	<u>49,097,497</u>			
Totals	<u>\$ 250,997,162</u>			

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2023 and 2022 are as follows:

	2023 Net Asset Value	2022 Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
SBI Non-Retirement Fund	\$ 55,690,315	\$ 49,097,497	\$ -	N/A	N/A

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LIABILITY FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

A reconciliation of beginning and end of year balances in the liability for unpaid losses and loss adjustment expenses (LAE), net of reinsurance recoverable for the years ended December 31, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Liability for Losses and LAE at Beginning of Year	\$ 573,835,000	\$ 582,704,000
Reinsurance Recoverable on Unpaid Losses - Beginning of Year	(340,533,000)	(356,914,000)
Net Liability for Losses and LAE at Beginning of Year	<u>233,302,000</u>	<u>225,790,000</u>
Provision for Losses and LAE for Claims Incurred:		
Current Year	31,777,000	31,673,000
Prior Years	(7,763,912)	(1,628,985)
Total Incurred	<u>24,013,088</u>	<u>30,044,015</u>
Losses and LAE Payments for Claims Incurred:		
Current Year	5,271,057	5,388,091
Prior Years	22,072,031	17,143,924
Total Paid	<u>27,343,088</u>	<u>22,532,015</u>
Net Liability for Losses and LAE at End of Year	229,972,000	233,302,000
Reinsurance Recoverable on Unpaid Losses - End of Year	<u>297,034,000</u>	<u>340,533,000</u>
Liability for Losses and LAE at End of Year	<u>\$ 527,006,000</u>	<u>\$ 573,835,000</u>

As a result of changes in estimates of insured events in prior years, the losses and LAE incurred, net of reinsurance, decreased by approximately \$7,764,000 in 2023 and approximately \$1,629,000 in 2022.

NOTE 7 - CONTINGENCIES

Since inception, the Plan has contracted with eight servicing contractors to provide policy issuance, premium accounting, and claim settlement services in exchange for a service fee based upon standard written premium. Contingent liabilities exist with respect to the performance of the above services to the extent that the servicing carriers are unable to meet their obligations under terms of the general services agreement.

The Plan is presently not engaged in any litigation that it considers will have a material adverse effect on its business. As is common with other insurance providers, the Plan is regularly engaged in the defense of claims arising out of the conduct of the insurance business.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income is defined as any change in policyholders' surplus originating from non-owner transactions. The Plan has identified those changes as being comprised of net income and change in unrealized appreciation on investments. The components of comprehensive income, other than net income, are as follows:

	<u>2023</u>	<u>2022</u>
Unrealized Appreciation (Depreciation) Arising During the Period	\$ 5,882,117	\$ (15,556,871)
Less Reclassification Adjustment for Realized Capital Gains (Losses) Included in Net Income	<u>(3,896,955)</u>	<u>2,101,498</u>
Total Other Comprehensive Income (Loss)	<u>\$ 9,779,072</u>	<u>\$ (17,658,369)</u>

NOTE 9 - POLICYHOLDERS' SURPLUS

A Minnesota law requires the Plan to transfer its "excess surplus" (as defined in the statute) to the general fund of the State of Minnesota. The amount appropriated by the Plan for the State of Minnesota was \$11,885,710 at December 31, 2023 and \$0 at December 31, 2022.

NOTE 10 - WCRA SURPLUS DISTRIBUTION

In 2022, the Workers' Compensation Reinsurance Association (WCRA) distributed \$600 million back to Minnesota's insurers, and policy holders as a result of excellent investment returns and reductions in loss reserve liabilities from favorable inflation rates, declining claims frequency, and recent legislation. The Plan's share of the distribution was \$19,959,115 and relates to insured years from 1982 through 2021 and is recorded as income in 2022.